

Lecture 1 Answers

1. (a) An asset is a resource that is controlled by an entity, as a result of a past transaction that is expected to bring economic benefits (generate profits).

Assets can be split into two categories:

Non-current assets – are to be owned for longer than 12 months.

Buildings, furniture, machinery and motor vehicles. These are tangible assets.

Brands, patents and goodwill. These are intangible assets.

Current assets – owned at the reporting date but are to be used by the business to make profits in the next 12 months. Inventory=stock; Trade receivables= Debtors; Cash.

(b) An expense is a period cost. It is costs that are incurred in the year and that the business has benefited from in the year. They have no future economic benefit. For example, electricity cost, advertising, accountancy fees and training costs.

2. The golden handshake must be recognised as an expense.

Generally training costs and golden handshakes cannot be recognised as an asset.

The problem is that to be regarded as an asset the entity must control the asset and there must be expected economic benefits. It is very difficult for an organisation to control an employee and quantify the future benefits.

Please note football clubs do regard players' contract fees as an asset and the cost is written off over the duration of a contract. An exception.

3. Loo's wholesale flower business:

Warehouse premises: Non-current asset

Office desks and chairs: Non-current asset

Inventory of cardboard boxes used to send flowers to florists' shops: Current asset

Loan from bank repayable in 2 years' time: Non-current liability

Bank overdraft: Current liability

Amount owed by tenant who occupies two rooms in the warehouse: Current asset

Amount owed to HMRC in respect of taxes on employees' wages: Current liability

4. Pigna's statement of financial position

a) Total assets = £ 221,981 (£ 113,046 + 58,370 + 42,266 + 8,299)

b) Current assets = £ 108,935 (£ 58,370 + 42,266 + 8,299)

c) Liabilities = £ 50,532 (£ 812 + 1,277 + 48,443)

d) Capital = £ 171,449 (£ 221,981 – 50,532)